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Report on results achieved by the United Nations Capital Development Fund in 2017

Summary

This report presents Member States with an annual review of results achieved in 2017 by UNCDF. As the final report of the strategic framework, 2014-2017, it also examines UNCDF contributions to broader ecosystem and market development changes that have evolved over time.

Elements of a decision

The Executive Board may wish to take note of the annual report; commend UNCDF efforts to track its contributions to broader ecosystem and market development impacts; and recommit to supporting UNCDF, including through fully funding regular resources requirements of $25 million per year.

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Annex. Integrated results and resources matrix (available on the Executive Board website)

I. Introduction

1. The annual report presents the development and organizational results achieved by UNCDF in 2017. As the last report in the 2014-2017 strategic framework cycle, the report also examines UNCDF contributions to larger ecosystem and market development impact that have evolved over the period.

2. The report is based on analyses of programme results reported against the integrated results and resource matrix (IRRM). It also incorporates findings from external evaluations, audit reports, financial data, internal case studies and external reviews of UNCDF activities.

II. UNCDF and the changing context

A. Contextual analysis

3. During the past four years, many least developed countries (LDCs) have made important development progress. Economic growth in LDCs is estimated to near 6 per cent in 2017, higher than the projected growth rate for other developing countries.[1] Even as they grow, many LDCs are experiencing limited improvements in productivity, job growth or economic diversification.

4. LDCs face significant financing gaps as they seek to graduate with inclusion and achieve the Sustainable Development Goals. Many LDCs are very reliant on official development assistance (ODA) to complement scarce domestic public resources. Yet ODA and domestic resources are not enough to meet their financing needs to achieve the Goals. Private investment flows that do go to LDCs typically focus on too few countries and sectors. While there is growing use of blended instruments, the poorest countries are largely being bypassed. Only 7 per cent of private finance mobilized by official development finance through guarantees and other private sector instruments has targeted LDCs.[2]

5. This reinforces the importance of putting ODA to catalytic use to accelerate economic growth, and to help mobilize additional resources for sustainable development. This is giving impetus to the work of UNCDF to innovate financing approaches where few others are present, approaches that create demonstration effects that, replicated and taken to scale, help build inclusive financial markets and local development finance systems, and that leverage additional public and private sector funding from domestic and international actors into local economies to support growth that is inclusive.

6. This work takes place in a broader context that is creating exciting opportunities to make finance work for the poor. Many private sector actors are playing an increasingly active role in development, with a growing number focusing on double or triple bottom lines or looking for other ways to support the Sustainable Development Goals. New financing tools are being developed or are ripe for adaptation in LDC contexts. The expansion of digital and mobile technologies and financial technology ("fintech") firms is extending the reach of services and finance in LDCs while lowering costs and empowering women and girls. Local governments are increasingly recognized for their essential role in meeting global challenges, from climate adaptation to responding effectively to urbanization and migration.

7. It is critical to ensure that this new generation of partnerships, tools, technologies and solutions works for LDCs and poor populations, small- and medium-size enterprises (SMEs) and local governments which are otherwise at risk of being left even further behind. This is why UNCDF continues to apply its capital tools, knowledge and experience to tackle exclusion and inequalities where it can have the biggest impact: in the last mile, where needs are greatest and where resources are most scarce. It is also why UNCDF continues to work closely with UNDP and other United Nations entities and in support of broader United Nations-wide efforts on mobilizing financing for the Sustainable Development Goals. A major constraint remains the consistent shortfall against the $25 million annual target for regular resources agreed in the strategic framework.

B. Highlight of results

8. UNCDF local development finance seeks to build local fiscal space and create local fixed capital across all geographic areas of a country. Local governments in LDCs face considerable challenges in mobilizing adequate revenue to meet recurrent expenditures and make long-term investments. UNCDF

[1] United Nations Conference on Trade and Development, The Least Developed Countries Report 2016.
[2] Report of the Inter-Agency Task Force on Financing for Development 2017.

has designed and tested financing models that encourage domestic fiscal resources and capital markets to invest in local governments and local economics to drive economic growth, empower women and build resilience. This contributes to the ability of local governments to achieve the Sustainable Development Goals and enhance resilience to risks including climate change by having adequate fiscal powers as well as the capacity and incentives to use them.

9. UNCDF has evolved its approach over the course of the strategic framework period. In line with the New Urban Agenda, it is now working with municipalities to leverage funding through public-private partnerships, bonds and own-source revenues. UNCDF has successfully piloted and is scaling up its performance-based, climate-resilient grants from 13 to 20 countries through intergovernmental fiscal transfer mechanisms. It has also introduced innovative structured project finance, SME finance and blended finance approaches to support local public and private sector actors to de-risk, build and unlock private finance for pipelines of investable projects with strong development impact.

10. In the area of financial inclusion, UNCDF is helping to create enabling ecosystems[3] to reach underserved populations and market segments, especially women, young people and SMEs. Data-based diagnostic tools are providing a strong foundation for Governments to articulate financial inclusion strategies. Supporting the implementation of these strategies includes a strong focus on helping financial service providers (FSPs) to build new business models in risky markets which, when brought to scale, can change the patterns of financial inclusion and agency for poor populations, especially women.

11. Digital innovations are a core feature of this work. UNCDF has leveraged the digital revolution to expand access to basic financial products and services, especially to address a growing range of "real economy" challenges, including improving agriculture productivity, enabling access to clean energy and supporting SMEs. The demonstration effects of this work are starting to influence how other service providers benchmark innovations in digital financial services. They are leading other actors to design products and alternative delivery channels that meet the financial needs of what were once considered unviable market segments; and are providing the evidence for Governments to put in place regulations for market expansion.

12. Throughout, UNDP and UNCDF have partnered and continue to partner on many joint initiatives, from working to build accountable local government in Somalia to identifying ways to expand financial inclusion in the small island developing States in the Pacific.

13. UNCDF is playing an increasingly active role in mobilizing investments in local economies through the application of loans, guarantees and reimbursable grants that mitigate the risks for public and private investors. The home for this third pillar of work is the LDC investment platform, which is creating new opportunities for UNCDF to expand its support for local infrastructure and businesses in the last mile. In addition, if the funding and demand are there, the platform could eventually be expanded to consider last-mile finance pipelines from UNDP and the wider United Nations development system.

14. Cutting across this work is a commitment to bring public and private actors together to expand the reach of finance to where few others are focusing, but where development needs are enormous; to craft and test out new approaches, deploying smart technologies, that tackle inequalities and empower women; to work with Governments, UNDP and the wider United Nations system and other development partners to take to scale what works; and to demonstrate practically that, with the right approaches and partnerships, LDCs and underserved regions and populations are investable.

Results against outcome 1: Financing increased for basic services and inclusive growth /local economic development

Local development finance

15. UNCDF works to get resources flowing to local governments. To create demonstration effects that shape how others view the viability of investing in local economies, during the strategic framework period, UNCDF completed 4,673 localized investments – in infrastructure, equipment and training – in 23 countries across a range of sectors. In 2017, 833 local governments were directly supported across

[3] Ecosystem development for financial inclusion entails strengthening policies, infrastructure, providers, distribution and client-centric approaches in a mutually reinforcing way to expand the access, usage and control of financial services for underserved populations.

23 countries, completing 410 public and private investments, which provided services and benefits to 1.2 million people, of whom around half were women.

16. A key measure of impact for UNCDF is the replication and scale-up of its financing models by others, highlighting that the dollar value passing through the UNCDF account alone does not capture the scale of its reach. In 2017, UNCDF carried out a longitudinal study looking at the scale-up of its local finance mechanisms in 10 countries. While the study is still being finalized, its preliminary conclusions note that the local mechanisms introduced – typically in close collaboration with UNDP – were significantly expanded by follow-on funds from donor partners and adopted by the national Governments for scale up. Examples from Bangladesh, Uganda and United Republic of Tanzania were previously shared with the Executive Board. The study also highlights Nepal, where UNCDF initiated a local development fund in 1999 covering eight districts with a budget of $5 million. This was later scaled up with $5 million from the Government of the United Kingdom to 20 districts by 2008. The use of performance-based grants and other lessons were incorporated in a government-led programme that continues today. This programme has allocated block grants of $128 million to local governments, of which 80 per cent comes from government resources.

17. In Guinea, UNCDF investments have been helping to influence broader local development financing decisions. For example, the construction of a public market and bus terminal in Boffa district increased the revenues of the local government by 200 per cent from 2014 to 2017. This has supported follow-on investments, enabling the local government to better absorb an influx of migrants attracted by a mining investment. The demonstration effect of this project has led to an agreement in 2017 between the Government and the Chamber of Mines to channel 0.5 per cent of mining royalties to a local government fund for similar types of investments. In 2018, UNCDF is planning to co-finance similar revenue-generating local infrastructure in Guinea with the local government, the French Development Agency, local banks and local developers. On a global scale, UNCDF will apply these lessons to engage with commodity producers in other LDCs.

18. Another notable example of unlocking financing for local development is in Bangladesh, where bank credit disbursals doubled in districts implementing the local development fund which UNCDF helped set up, while local fiscal space expanded by 27 per cent from 2013 to 2017. The lessons from the UNCDF programme informed a government decision to scale up the programme to all subdistrict governments across Bangladesh. In 2017, UNCDF also facilitated and financed the establishment of a credit guarantee facility by the Bangladesh Bank, which will potentially unlock nearly $1 million of local bank financing for women entrepreneurs in sectors selected for their catalytic impact on the local economy. This is expected to increase collective turnover of the targeted entrepreneurs over the next five years. Furthermore, on the back of the UNCDF involvement, the International Finance Corporation has injected an additional $750,000 to support the credit guarantee facility.

19. In 2017, the UNCDF evaluation unit conducted a midterm evaluation of the UNCDF local finance initiative (LFI), covering its first two phases.[4] Its first phase focused on matching international investors with local investment projects in LDCs. But this approach missed the transformative opportunity to engage and develop domestic capital markets for local development. In a second phase, UNCDF pivoted the initiative to target domestic banks to finance catalytic local investments. While LFI was successful in reaching financing agreements with local banks, it soon recognized that the local banks required further conditions and closer engagement with project developers to move from loan agreement to disbursement.

20. Building on these lessons, in 2016-2017 UNCDF initiated another pivot to expand the role of de-risking capital in the form of reimbursable grants, loans and guarantees, blended with funds from local governments to further de-risk and co-finance investments. UNCDF also introduced a more rigorous appraisal of a project's development impact alongside a more rigorous management of its financial additionality and sustainability. The programme also focused on developing national platforms to build local ecosystems to take the demonstration effect to scale. The midterm evaluation helped to inform the phasing in of this revised approach.

[4] https://erc.undp.org/evaluation/evaluations/detail/9315

Table 1. Progress against selective IRRM indicators

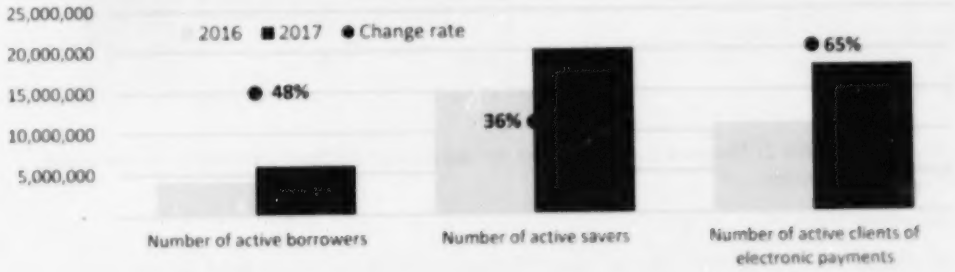
Indicators	Plan (2017)	Actual (2017)	Score*
Outcome 1.d. Net change in local fiscal space available for local development in subnational territorial jurisdictions supported by UNCDF	100%	76%	+
Output 1.2.2. Volume of UNCDF investments made to local governments	$15,000,000	$7,695,727	+/-
Output 1.2.5. Number of UNCDF-supported local investments in infrastructure completed	6,350 (cumulative)	4,673 (cumulative)	+/-

** Performance assessment: Achieved (+) = 75-100%; Partially achieved (+/-) = 50-70%; Not satisfactory (-) = < 50%*

Financial inclusion

21. UNCDF played a leading role in developing digital ecosystems and last-mile infrastructure that are increasingly essential to extending financial services to poor men and women. Between 2014 and 2017, UNCDF supported FSPs in reaching 18 million clients to use digital payments to access basic services and engage more fully in their local economies. In particular, UNCDF saw a notable increase in digital payment clients of its partner FSPs as compared to changes in the number of active savers or borrowers, as seen in figure 1.

Figure 1. Change in number of financial clients, 2016-2017



22. The enormous positive impact digital financial services (DFS) can have on poverty reduction is well documented.[5] UNCDF support to DFS has evolved. From an initial focus on increasing access, UNCDF worked on driving usage to realize impact and is now helping to adapt digital solutions to real economic challenges. For instance, pay-as-you-go models are empowering poor people to purchase goods and services in increments that better fit household cash flow.[6] Household solar electricity is one of the initial "use cases" UNCDF has been advancing across eight countries.

23. By building digital ecosystems, the UNCDF Mobile Money for the Poor programme has contributed to an increase of 6.7 million adults with an active DFS account in eight countries. In Zambia, for instance, UNCDF has contributed to a sharp increase in active DFS users, from 2 per cent of the adult population in 2014 to 18 per cent by 2017. In 2017, the roll-out of an e-wallet called "Sunga", developed with UNCDF support, has gained traction with active account usage reaching 136,000. The programme also focused on expanding access to the most vulnerable and excluded populations, including rural families and refugees. UNCDF, working with the Office of the United Nations High Commissioner for Refugees (UNHCR), has been instrumental in requesting the Zambian Government to allow the use of refugee identification when opening a mobile money account. Currently, research is being conducted to identify how DFS can help mothers address specific challenges they face and to develop the business case for service providers to deliver products that meet their needs.

24. UNCDF supports mobile network providers to design and test a variety of client-centric products. This work is beginning to shape the product design of other providers in the market. In Uganda, UNCDF has supported payments digitization in agricultural value chains, which resulted in 71,000 new rural customers using mobile money in 2017. UNCDF is also engaging with fintech firms, which are needed

[5] For instance, http://science.sciencemag.org/content/354/6317/1288.
[6] https://goo.gl/3nS7Td

to connect across multiple service providers, and is partnering with public and private institutions that leverage DFS for their payment and financing solutions, such as bulk payers in agriculture smallholder supply chains.

25. The joint UNCDF/UNDP Pacific Financial Inclusion Programme has made a significant contribution to increasing access to finance in the South Pacific, supporting the enrolment of 1.7 million people for savings, loans, mobile wallets, micro-insurance or remittances using primarily digital channels. This represents 29 per cent of the total adult population in that market. The programme has contributed significantly to the financial inclusion of women, resulting in some 800,000 women becoming formally banked since 2008. In 2017 alone, some 170,000 women clients were reached through the various financial products and services supported by UNCDF.

26. In Nepal, UNCDF helped FSPs reach 48,000 new clients through establishing 11 rural branches; setting up 405 mobile and agent banking points; and designing seven new financial products specifically catering to the large agribusiness value chains. Under the challenge fund mechanism of the Shaping Inclusive Finance Transformation programme, UNCDF supported the LienVietPostBank "Vi Viet" e-wallet to reach 1.5 million clients.

Table 2. Progress against selective IRRM indicators

Indicators	Plan (2017)	Actual (2017)	Score
Outcome 1.a.3. Number of active clients of electronic payments facilitating financial inclusion	3,217,930 (50% women)	17,970,636 (47% women)	+
Outcome 1.c. Net change in United States dollar value of loan portfolio of UNCDF-supported FSPs	$585,000,000	$2,406,271,196	+
Output 1.1.6. Percentage of FSPs meeting portfolio quality targets[7]	80%	59%	+/-

Results against outcome 2: Financing mechanisms established to increase resilience to economic and environmental shocks

Local development finance

27. A core feature of UNCDF work on resilience is strengthening the ability of local governments to put in place the systems and financing needed to improve people's lives and withstand climate- and food security-related shocks in particular. In Somalia, UNCDF, through a joint United Nations programme, strengthened the resilience of fragile institutions by supporting the rebuilding of the State from the bottom up. This entails putting in place systems of local accountability for government officials, supporting contracting and tendering for the local private sector and delivering local infrastructure and services. UNCDF is drawing on its long experience working in other crisis-affected settings partnering with local governments as agents of change. In 2017, some 470,000 people benefited from the completed local infrastructures, mainly in the transport sector. Puntland began to scale up localized investments with a pledge to increase its contribution to the local finance mechanism from 1 to 2 per cent of its expenditure starting in 2018. In Somaliland, an additional four districts have been selected to apply the local finance mechanism using their own funding, thereby ensuring the initiative's sustainability.

28. UNCDF recognizes that local governments are on the front line of building resilience to climate change. The Local Climate Adaptive Living Facility (LoCAL) supports direct access to the Green Climate Fund (GCF) and other climate finance with the objective to transfer resources to local governments through national institutions and systems for building verifiable climate adaptation and resilience. In 2017, LoCAL was active in 13 countries working with 68 local governments representing over 5.5 million people. The programme uses performance-based grants for climate resilience as an integral part of the intergovernmental fiscal transfer systems in each country. Between 2014 and 2017, UNCDF provided $5 million in seed capital and technical assistance, which unlocked some $18 million in additional financing from local or central governments and donor partners, as shown in figure 2. These funds have been used to build local infrastructures that have improved water management,

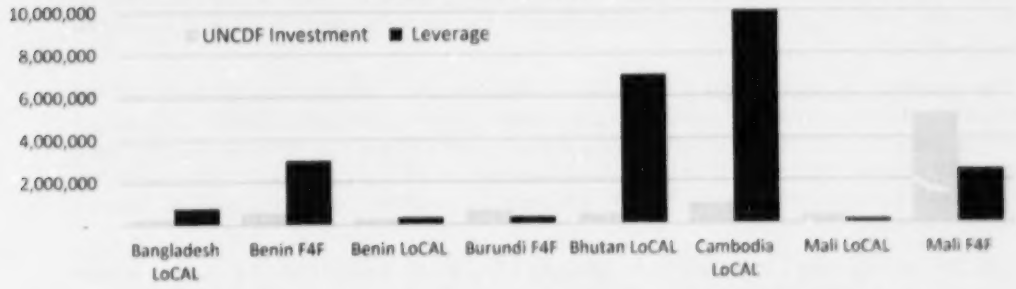
[7] This indicator has been affected by regulatory changes in West Africa that require FSPs to keep non-performing loans in their portfolios for a maximum of two years.

transportation and irrigation channels for agriculture, benefiting local communities affected by climate change.

29. In Bhutan, the LoCAL mechanism has been scaled up with additional support from the European Union to cover half the country, focused on enhancing resilience in rural areas. In 2017, the Governments of Benin, Bhutan and Mali committed domestic financial resources through LoCAL's financing mechanism. Benin, Cambodia and Mali have submitted proposals to the GCF to scale up the LoCAL approach. Four countries in West Africa began work with the Development Bank for West Africa and UNCDF to mobilize international climate finance for LoCAL. UNCDF is planning to expand LoCAL to 20 countries with a greater focus on urban areas and private sector resilience finance.

30. A midterm evaluation of LoCAL in 2017 confirmed the programme's relevance to national development and climate adaptation priorities in partner countries. The evaluation judged the programme to have a clear added value compared to other international programmes through its focus on mainstreaming climate adaptation in local governments. It recommended greater attention to results management and analysis, and to strengthen its engagement with international and national partners and the private sector.

Figure 2. Non-UNCDF funds leveraged through localized financing systems for resilience, 2014-2017



31. The Finance for Food (F4F) programme works with local governments and local businesses through a territorial approach which goes beyond traditional value chain financing to identify investments that specifically and measurably boost local food security and nutrition. In Burundi, Mali, Mozambique and Niger, UNCDF provided $2.3 million in seed capital and technical assistance in 2017 to strengthen the resilience of local food systems.

32. Through the LDC investment platform, UNCDF provided a new generation, concessional subordinated loan of $250,000 to an agribusiness company in United Republic of Tanzania. The loan, together with UNCDF technical assistance and a guarantee scheme from the Private Agricultural Sector Support Trust, mitigated risks of the project and unlocked $765,000 in loans from a local private bank. This will enable the project developer to enhance productivity and build a regional value chain that will benefit some 7,500 smallholder farmers working with the company. This demonstrates how UNCDF can unlock local private sector capital for sustainable development in markets perceived as too risky by some investors.

33. The most sustainable way to scale up the F4F programme is through engaging public and private sector partners. UNCDF signed a partnership in 2017 with Commonland, a social enterprise working in landscape restoration, and seeks to create a financial ecosystem in LDCs to attract long-term financing for revenue-generating, environmental resilience projects. To show proof of concept, UNCDF and Commonland collaborated on devising a financial package consisting of senior debt and equity for the Kalemawe Dam restoration project in United Republic of Tanzania, which is expected to improve the livelihoods of 10,000 local people.

34. In 2017, UNCDF launched a new five-year programme in Uganda with $30 million from the European Union to consolidate stability in the northern regions and strengthen the foundation for inclusive, local economic development in areas affected by political instabilities and the influx of some 900,000 refugees.

Table 3. Progress against selective IRRM indicators

Indicators	Plan (2017)	Actual (2017)	Score
Outcome 2.c. Volume of non-UNCDF funds channelled through financing systems developed with UNCDF support targeting vulnerability, exclusion, and shocks	$18 million	$24 million	+
Output 2.2.1 Volume of funds channelled through new financing systems piloted by local governments with UNCDF support targeting vulnerability, exclusion, and shocks	$4.5 million	$2.7 million	+/-
Output 2.2.2 Percentage of targeted local governments having integrated the resilience dimension in their planning and budgeting processes	80%	79%	+

Financial inclusion

35. Helping poor people have a safe place to save smooths consumption, builds assets, and increases resilience against shocks. "Getting money out of the mattresses" can also boost the domestic economy, increase sustainability of FSPs and help clients benefit by accessing formal financial services. UNCDF supported 138 FSPs that achieved a net increase in deposits of $6.5 billion mobilized since 2013, demonstrating the potential for well-targeted ODA to catalyse domestic resources for development. Impact studies also consistently show positive benefits for women's access to savings and digital financial services.[8]

36. Via YouthStart, a programme to increase access to finance for low-income youth in Africa, 830,000 young people (43 per cent women) gained access to savings accounts and accumulated over $22 million in savings since 2010. Of these, 210,000 young entrepreneurs (54 per cent women) accessed loans totalling $29 million. For the first time in 2017, the aggregate value of loans to youth was greater than their collective savings, indicating that both the FSPs and the youth are more confident in the youth's ability to repay loans.

37. UNCDF reached over 2.2 million new customers (70 per cent women) in 11 countries through savings products developed with the MicroLead programme's support since 2008. UNCDF provided support for market research and development of new products and delivery channels in 2014. By 2016-2017, DFS products were offered by most of MicroLead's grantees, and partner FSPs had developed viable business models efficiently to reach rural populations and mobilize small balance deposits. Since 2013, FSPs have offered formal accounts to 900,000 savings group members in six countries. With this experience, UNCDF has been recognized by peer networks as a leading agency in linking savings groups with formal financial services.[9]

38. This success of MicroLead has led other service providers to understand the viability of addressing these new market segments in LDCs, leading them to expand their services to low-income and rural populations, especially women, who have been traditionally excluded by FSPs.[10] MicroLead was recognized as one of the five leading organizations with which the Mastercard Foundation has partnered to scale access through alternative delivery channels for last-mile financial services in Africa.[11]

39. The UNCDF CleanStart programme helps low-income consumers transition to cleaner and more efficient energy. The programme facilitated sales of more than 157,000 clean energy solutions such as solar home systems, biogas and efficient cook stoves. Of the 56,000 products financed, 59 per cent were sold to women. Overall, CleanStart risk capital has opened new markets in energy lending business models through partnerships with FSPs and energy service providers. In Nepal, CleanStart's investment of $543,000 in energy lending leveraged a total investment of $22 million, of which $17 million was credit from four local FSPs.

40. In 2017, CleanStart launched the renewable energy challenge fund to finance innovations in clean cooking in Uganda, and signed new co-financing agreements with six clean cooking solution providers. The companies will be distributing efficient cooking solutions to an additional 40,000 households, businesses and institutions such as schools. This will create over 700 jobs and income-earning

[8] https://goo.gl/zYVQqH and https://goo.gl/9juSdq.
[9] http://www.uncdf.org/microlead/cases.
[10] https://goo.gl/gZSXUM
[11] http://www.uncdf.org/article/2810/mcf-adc-paper and https://goo.gl/Hehsr5.

opportunities, especially for women and youth, and lead to reductions of approximately 400,000 tons of carbon dioxide by 2020. The programme's ability to generate a pipeline of investable companies identified through the challenge fund process places CleanStart at the crossroads of where private finance intersects with the Sustainable Development Goals.

41. A 2017 midterm evaluation of CleanStart led to plans to further diversify its financing tools in order to unlock more clean energy finance and strengthen its monitoring and impact measurement frameworks.[12]

42. UNCDF has expanded its work seeking to provide financial inclusion to refugees and their host communities. UNCDF was among the first agencies to respond to the UNHCR Comprehensive Refugee Response Framework.[13] The two organizations started piloting an approach in 2017 to support FSPs to develop demand-driven, client-centric services including remittances and DFS for forcibly displaced people and their host communities.

Table 4. Progress against selective IRRM indicators

Indicators	Plan (2017)	Actual (2017)	Score
Outcome 2.a. Number of new financial products to improve client security, resilience against shocks scaled up by UNCDF supported FSPs[14]	155 (cumulative)	112 (cumulative)	+/-
Outcome 2.b. Number of clients served by new scaled products	6,400,000 (cumulative)	11,232,937 (cumulative)	+
Output 2.1.1 Number of new or improved financial products piloted with UNCDF support	155 (cumulative)	161 (cumulative)	+

Results against outcome 3: Policy environment that is conductive to sustainable financing for sustainable development

Local development finance

43. UNCDF systematically takes the lessons emerging from its local development finance programmes and supports Governments to understand and reflect them in national policies and regulations that help empower local governments.

44. For example, UNCDF works on building enabling environments for municipal finance at the local level in response to the New Urban Agenda. In 2017, UNCDF published a report with the United Nations Department of Economic and Social Affairs to promote knowledge-sharing in urban finance and to support LDCs in strengthening their urban finance frameworks.[15] UNCDF also co-organized with the United Nations Human Settlements Programme a stand-alone expert meeting on municipal finance at the Economic and Social Council Forum on Financing for Development. The UNCDF role and competence on municipal finance was recognized in a United Nations high-level independent panel report.[16]

45. UNCDF made significant progress in establishing a policy environment conducive to financing urban development through its Municipal Investment Finance programme. This included supporting regulatory reforms and engaging with partners to issue guarantee for municipal bonds in Bangladesh and United Republic of Tanzania. In Bangladesh, UNCDF has worked to secure credit ratings for 10 local governments and is working with the regulatory authorities on a bond issuance that will let those local authorities raise from the capital markets the funding they need to pay for priority investments.

46. UNCDF is working to create enabling environments at the local level that lead to increased investments in women's empowerment. Investments that overcome bottlenecks to women's economic empowerment can have a multiplier effect on sustainable development. UNCDF has joined forces with UNDP and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) to implement the Inclusive and Equitable Local Development programme, which aims to improve the policy environment for women in the labour force and generate examples of inclusive

[12] https://erc.undp.org/evaluation/evaluations/detail/9245
[13] https://goo.gl/DqJasG
[14] The outcome target was over-ambitious since it assumed all piloted products (output 2.1.1) would be scaled, which is seldom the case. Targeting in the new IRRM has been adjusted.
[15] https://goo.gl/Ct6d0Q
[16] https://goo.gl/mM3Yfg

investments that can drive progress in this area. In 2017, an expert group of gender economists developed a women's economic empowerment index to guide investment decisions with local partners. The programme also developed a gender-sensitive local economic assessment tool, which was used in Bangladesh, Uganda and United Republic of Tanzania, to identify local needs and priorities in women's empowerment in targeted localities.

47. In 2016-2017, together with the Global Fund for Cities Development and the Public-Private Infrastructure Advisory Facility, UNCDF strengthened capacities of the Network of African Finance Institutions for Local Authorities to provide support to municipal development funds for local governments. Comprehensive analytical reports were produced on institutional, regulatory and market environments and how to access alternative and diverse sources of funding for four municipal funds in Cameroon, Madagascar, Mali and Niger.

48. In 2017, UNCDF finalized a strategic partnership with the United Cities and Local Governments, which includes contributing to the global observatory on local government finance with the Organisation for Economic Co-operation and Development and which will deepen UNCDF involvement in the global taskforce for localizing the Sustainable Development Goals. Thanks to productive discussions with the United Nations Office for South-South Cooperation, UNCDF will be co-hosting the World Alliance of Cities Against Poverty in 2018 with the City of Malaga, Spain. This will support local governments from the North and South to address the challenges associated with migration.

Table 5. Progress against selective IRRM indicators

Indicators	Plan (2017)	Actual (2017)	Score
Outcome 3.b. Number of national strategies, action plans, policy or regulatory changes for local development finance adopted by host Governments	10 (cumulative)	30 (cumulative)	
Outcome 3.b.1. Percentage of national strategies, action plans, policy or regulatory changes for local development finance adopted by host Governments that address gender issues	50%	43%	

Financial inclusion

49. At the global level, UNCDF and the Better Than Cash Alliance provided support to the Secretary-General's Special Advocate for Inclusive Finance for Development, Her Majesty Queen Máxima of the Netherlands, through her Reference Group and the Group of Friends of Financial Inclusion, providing advice on financial inclusion and its contribution to women's empowerment.

50. UNCDF contributed to the Secretary-General's report on the Sustainable Development Goals and the report of the Inter-Agency Task Force on Financing for Development. At the High-Level Political Forum, UNCDF co-organized a side-event on financial inclusion and women's empowerment. UNCDF engaged with the Inter-Agency Expert Group on the Sustainable Development Goal Indicators to ensure that indicators on financial inclusion are appropriately defined and disaggregated and measure progress on the goals to which they contribute.

51. UNCDF and the Better Than Cash Alliance provide a global voice on responsible finance, and supported the Responsible Finance Forum VIII on data privacy and protection. UNCDF works with established mechanisms and FSPs to advance global client protection principles and social performance.

52. At the country level, UNCDF acts as a facilitator for a broader market development approach to financial inclusion. For example, the Making Access Possible (MAP) diagnostic framework is a data-driven platform deployed in 18 countries which has helped Governments define or update their financial inclusion strategies and foster coordination among stakeholders and funders. Between 2014 and 2017, 11 national financial inclusion roadmaps were approved by Governments with MAP support. The financial inclusion data generated by MAP have helped to catalyse private sector investments in financial inclusion.

53. UNCDF played a key role in the passage of agent banking legislation in Liberia, Sierra Leone and Uganda to facilitate access to financial services especially for rural and low-income population segments. UNCDF has also applied big data analysis in Cambodia to identify market gaps and facilitate development of tailored financial products to serve the underbanked populations.

54. UNCDF developed a new strategy and country assessment toolkit on gender and financial inclusion, called "Participation of Women in the Economy Realized" and undertook assessments in five countries. These led UNCDF to identify and prioritize the constraints faced by women and girls in accessing, using, and controlling the benefits from financial services. UNCDF is developing country strategies, working with such diverse partners as UN-Women, women's groups, businesses, civil society organizations and FSPs to implement these strategies.

55. The 364 knowledge products produced during the strategic framework period have positioned UNCDF as a thought and practice leader among its peers on financial inclusion. For example, MicroLead published toolkits to help financial institutions provide DFS that were cited by the Consultative Group to Assist the Poor as among its top five editor's picks for 2017.[17]

56. The advocacy of the Better Than Cash Alliance has led to growing international recognition of the importance of digitizing payments. The Alliance, for which UNCDF serves as secretariat, has secured the membership of 28 Governments, 22 development organizations and four companies. This number continues to grow. The Alliance has advocated the inclusion of digitizing payments in major policymaking forums such as the G-20, Asia-Pacific Economic Cooperation, Global Partnership for Effective Development Co-operation, the World Economic Forum and the Pacific Alliance.

57. The Better Than Cash Alliance also contributed to the development of digital payment ecosystems in member countries that enhanced their payment infrastructure, driving the shift to digital and benefiting individuals, businesses and Governments. Both Fiji and Solomon Islands have made public commitments via the Alliance to enhance their use of digital finance in line with their national financial inclusion strategies. UNCDF is supporting the implementation of these public commitments, such as working on tax digitization with the Solomon Islands Inland Revenue Department.

Table 6. Progress against selective IRRM indicators

Indicators	Plan (2017)	Actual (2017)	Score
Outcome 3.a. Number of national inclusive finance road maps, action plans, national strategies or policy changes adopted by host Governments	20 (cumulative)	29 (cumulative)	
Outcome 3.a.1. Percentage of national inclusive finance road maps, action plans, national strategies adopted by host Governments that address gender issues	100%	82%	

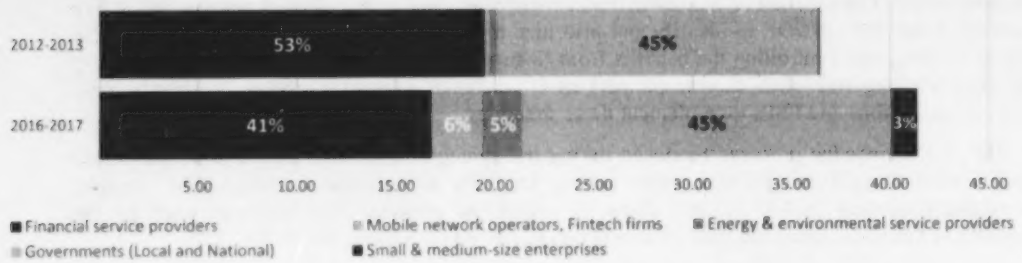
C. Understanding performance against the strategic framework

58. Among the 47 development effectiveness indicators, 38 are assessed to have reached their target, and 9 have been partially achieved, in most cases due to the effect of a decrease in regular resources. For instance, volume of investments made to FSPs fell short of the established targets, a direct consequence of a reduced resource base.

59. Compared to its focus on promoting microfinance and public local finance in 2010-2013, UNCDF has evolved its focus, tools and approaches over the last four years to target more clearly last-mile populations, SMEs and local governments. Figure 3 compares the change in UNCDF investments between 2012-2013 and 2016-2017. The figures show a striking evolution in the composition of UNCDF investee partners that follows the changes in its programmatic approach. In 2012 and 2013, over 98 per cent of UNCDF investments were made to FSPs, mainly microfinance institutions and commercial banks, and to local governments. While these two sectors remain vital partners, UNCDF investments have expanded significantly to mobile network operations, fintech firms, energy services providers and SMEs in both sectors.

[17] See https://goo.gl/msXGyJ, and https://goo.gl/dnujmG.

Figure 3. Diversification of UNCDF grant portfolio (unit in millions of United States dollars)



60. Beyond this programmatic evolution, there has been a diversification of UNCDF financing instruments. The LDC investment platform is helping UNCDF programmes to structure, rate credit and mitigate risks in investment opportunities they have sourced, both from the private and public sectors. UNCDF has put in place new loans and guarantees policies, strengthened its due diligence requirements, launched a credit scoring model and built a process to support the selection and approval of relevant loan and guarantee transactions. The platform also strengthened its legal framework based on support from the UNDP Office of Legal Affairs as well as pro bono support received from two top international law firms in New York. The platform introduced support tools to field investment staff and has increased human capacities to manage and oversee the loan and guarantee operations, while ensuring robust due diligence, credit scoring and risk assessment.

61. To ensure development and financial additionality, the LDC investment platform looks to invest in niche market opportunities, where finance is not yet flowing predictably because of real and perceived risks; where the recipient can make productive use of the capital and ensure repayment; where UNCDF has the potential to mobilize additional capital flows; and where there is scope to achieve significant development results.

62. In 2017, UNCDF issued two loans; one to a financial institution in Myanmar, and the other to a SME in United Republic of Tanzania. UNCDF is in the process of issuing a guarantee in Benin and another loan in Myanmar in early 2018.

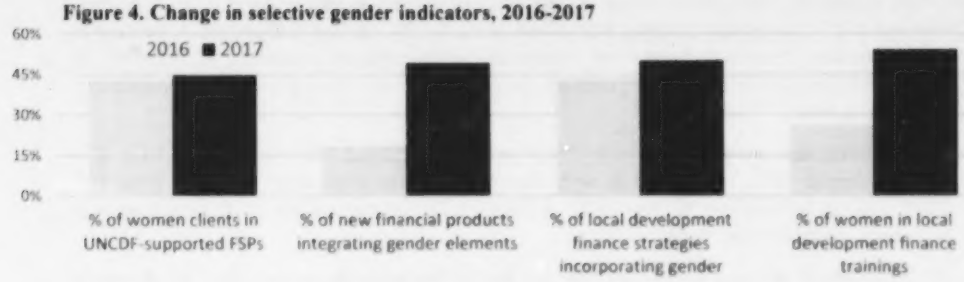
63. UNCDF has expanded its presence in impact investment communities such as the Aspen Network of Development Entrepreneurs and Global Impact Investing Network, actively helping to shape the policies and practice of impact investing in LDCs. UNCDF has launched a consultation on a public-private partnership with impact investing advisors and asset managers to collaborate on establishing investment vehicles in LDCs. UNCDF also entered into a partnership with 17 Asset Management, which aims to offer investors new products to support the Sustainable Development Goals, while committing to finance UNCDF work in LDCs.

64. Throughout the strategic framework period, UNCDF has emphasized the promotion of gender equality and women's empowerment in its programmatic approach and continues to refine and improve how it makes finance work for women, building on global best practice. As a result, UNCDF has seen notable increases in its ability to reach women and to design products and policies aimed at empowering women, as shown in figure 4. Still, there remain areas needing improvement, such as ensuring that knowledge products adequately address gender issues.

65. External evaluations carried out during the strategic framework period have found UNCDF programmes to have robust programme design features and strong results in areas of women's empowerment. For instance, MicroLead prioritized the design of savings products for women, rolling out gender safeguards in partner FSPs and integrating gender issues in its training and technical support; this resulted in a high increase in women clients across all countries.[18] A local development finance programme in Benin had specific outcomes dedicated to women's empowerment; it prioritized targeting women in its investment design and rolled out gender strategies for local governments.[19]

[18] http://shift.uncdf.org/article/380/microlead-midterm-evaluation-report
[19] https://erc.undp.org/evaluation/evaluations/detail/7040

Figure 4. Change in selective gender indicators, 2016-2017



Select lessons and findings from implementation of the strategic framework

66. Over the strategic framework period, UNCDF has captured important lessons from the midterm review, an external review of its results measurement system, financed by the UNDP Independent Evaluation Office, and an internal synthesis report of the findings of eight external evaluations completed since 2014.

67. Overall, UNCDF was judged to be doing a good job in designing and implementing programmes that improved the lives of the poor in LDCs. UNCDF designed interventions relevant to LDC priorities building good cooperation with other development stakeholders and responding to the needs of the national implementing partners. All programmes prioritized gender equality and women's empowerment in their design and implementation. The review also identified areas for improvement, including the need for UNCDF to better articulate and report on expected results beyond the level of direct implementing partners, and to ensure that its initial input and activities have a clear pathway leading to influencing the development of markets and systems that drive inclusion.

68. UNCDF-supported partners were found generally to be making progress in reaching the underserved population in financial inclusion and local development finance. Innovations in DFS were helping them reach increased numbers of low-income clients, expanding, for example, their access to affordable clean energy or formal savings products. UNCDF support to improve public financial management by local governments typically yielded increased investments in productive infrastructure as well as, where relevant, improved household food security and nutrition. While UNCDF was found to be good at identifying the right implementing partners, the review also found that UNCDF should do better in ensuring timely programme delivery and appropriate monitoring, reporting and knowledge management.

69. In terms of impact and sustainability, the review found that UNCDF interventions typically reach last-mile populations. The review also recommended that UNCDF should expand its range of evaluation tools to better capture longer-term effects of its interventions, both at the individual level and on the broader policy and market systems in LDCs that UNCDF is seeking to support. Both of these topics have been included as proposed thematic evaluations in the evaluation plan for 2018-2021.

70. UNCDF efforts on its results measurement system since 2014 were regarded as a "considerable achievement". The IRRM was judged to be well aligned with the strategic framework and supported by a cost-effective system. Gender equality and women's empowerment were found to be well-embedded in the matrix following its update in 2016, while still leaving room for improvement. The review found that full integration of the matrix into results measurement at the programme level had yet to be achieved; the use of results data for external reporting and programme management could be improved; and aspects of the UNCDF mandate, such as services to the poor and protection of the environment, were not fully covered in previous results measurement systems.

D. Analysis of institutional effectiveness

71. Among the 33 institutional effectiveness indicators, 24 have reached the targets set for the strategic framework. Most of the indicators that are partially achieved are related to resource mobilization. For instance, the UNCDF regular resources envelope during the strategic framework period was $61 million against the target of $86 million.[20] Regular resources decreased 30 per cent from $18.8 million in 2013 to $12.6 million in 2017, well below the $25 million per annum targeted for the strategic framework.

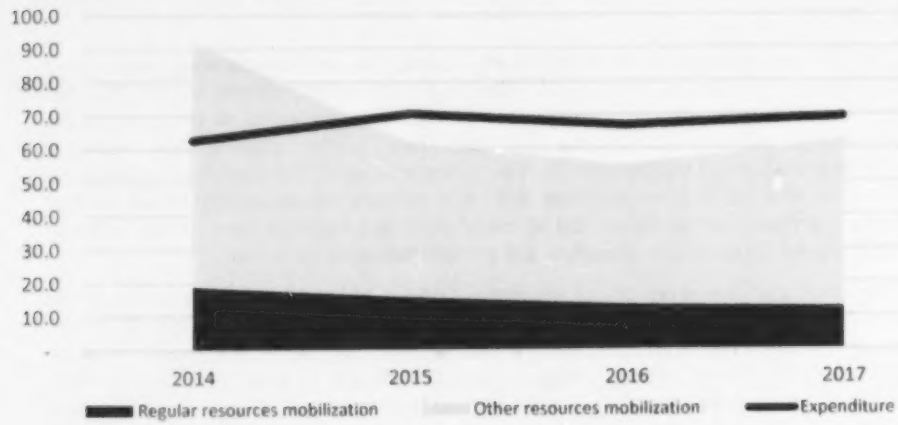
[20] Regular resources include UNDP biennial support budget and programme support.

In terms of other resources, UNCDF mobilized a total of $210 million against a target of $300 million between 2014 and 2017. During the strategic framework period, UNCDF has had particular success in mobilizing resources from the private sector and non-governmental sources, exceeding its target of $20 million by over three-fold, mobilizing $62.3 million. UNCDF continues to explore new opportunities to expand its resource base.

72. Joint programming and collaboration with UNDP and other United Nations agencies have also increased, with resources from pooled funds and joint programmes more than doubling from $20 million in 2010-2013 to $45 million in 2014-2017. In 2017, UNCDF carried out joint programmes in 24 countries, mainly in partnership with UNDP.

73. UNCDF expended an average of $67 million per annum between 2014 and 2017, as shown in figure 5. UNCDF reached 99 per cent delivery of its mobilized resources, expending a total of $269 million during the strategic framework period.

Figure 5. UNCDF resource mobilization and expenditures, 2014-2017 (unit in millions of United States dollars)



74. UNCDF also reduced its management costs against expenditures from 15 per cent in 2013 to 9 per cent in 2017. This was possible in part due to the realignment carried out during 2014-2015, which invested in cross-practice synergies, and through ongoing efforts to streamline operational support functions and to apply stricter budgetary controls.

75. However, the sharp reduction and overall shortfall in regular resources have negatively affected the ability of UNCDF to be present in 40 LDCs by 2017, the target set for the strategic framework. The UNCDF presence in LDCs has decreased over the strategic framework period from 32 LDCs in 2013 to 29 LDCs in 2017. Furthermore, among the 29 LDCs, UNCDF maintains a "thin presence" with only project funding and no staff in five LDCs; this presence is at risk of closing.

76. As described in detail in the new strategic framework, 2018-2021, UNCDF requires annually a resource envelope of $25 million in regular resources, $75 million in other resources and a $50 million LDC investment fund to enable a robust presence in 40 LDCs. This will also allow UNCDF to be a more catalytic and strategic partner to Governments, to UNDP, including in support to its country platform approach, and to the wider United Nations development system.

77. Guided by its gender strategy, UNCDF continued to improve its performance in compliance with the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women. Corporate performance improved from 40 per cent in 2012 to 80 per cent in 2017, with notable improvements in strategic planning, monitoring and evaluation, and communications. In terms of staffing, UNCDF continues to work on achieving gender parity at the more senior professional levels.

78. To ensure that its country presence can be as effective as possible, UNCDF rolled out a country focal point system in 2017 to strengthen its coordination and engagement with Governments, UNDP, other United Nations agencies and other development stakeholders.

79. UNCDF continues to invest in knowledge management and generation and in strategic communications, all key to ensuring that lessons and best practice from UNCDF can contribute to global debates and practices around extending the reach of finance. Last year, UNCDF launched a new website leading to a doubling in the number of unique visitors.

80. UNCDF supports an active evaluation function. By 2017, UNCDF had completed eight evaluations and has plans to initiate three others covering programmes carried out during the strategic framework period. UNCDF commissioned an external review of its results measurement system and oversaw a synthesis review, whose findings are summarized in the lessons learned section. Seven evaluation reports were assessed by the UNDP Independent Evaluation Office, of which six were rated "highly satisfactory" or "satisfactory" and one was rated "moderately satisfactory".

81. UNCDF made considerable progress in implementing both internal and external audit recommendations. All audit recommendations relating to 2014, along with six of seven recommendations for 2015, have been fully implemented; one 2015 recommendation was overtaken by events and three of the 2016 recommendations have been fully implemented. Implementation of all remaining recommendations is on course for completion within the submitted deadlines.

82. Fund balances at the end of 2017 were $96 million, made up of reserves, employee benefits, multi-year contributions, end-of year contributions and unspent balances. UNCDF has made full provisions for after-service health insurance as required by International Public Sector Accounting Standards, and with the support of UNDP updated its operational reserve to ensure full compliance with the new methodology approved by the Executive Board in decision 2017/22. UNCDF will ensure that its operational reserve requirements under the new methodology are fully maintained.

III. UNCDF looking forward

83. In the year ahead, UNCDF is prioritizing three issues. First, it will focus on scaling up programmes that unlock public and private finance and enhance inclusive financial markets and local development finance systems. In local development finance, this means prioritizing work with municipalities, especially in urban areas, to mobilize funding so they can better serve local populations and meet their infrastructure needs; expanding work on local resilience finance, which brings together work on climate adaptation, food security and land restoration; attracting finance for projects that empower women; and mobilizing financing for pipelines of investable projects with clear development impact. In financial inclusion, this means prioritizing the expansion of financial services to reach underserved populations, especially women, girls and youth; using data-driven diagnostics to help Governments develop financial inclusion strategies; helping to formalize remittance channels; and expanding work in crisis contexts, including in support of refugees and forcibly displaced populations. Digital innovations will remain a core feature of this work and are also integral to efforts to expand access to clean energy and to support smallholder farmers in integrating into agriculture value chains.

84. Second, UNCDF will continue to use its capital mandate to expand the frontiers of finance in LDCs. Through its LDC investment platform, UNCDF is playing an increasingly active role in mitigating risks to investments in local economies. While it currently focuses on providing guarantees and loans to projects supported by UNCDF, if funded and requested to do so, this platform could be expanded to provide due diligence, credit rating and risk absorption to pipelines coming from other United Nations agencies as well. It is also investing in a thought leadership role on the application of blended finance in LDCs, the findings of which it intends to use to build a community of practice and shape the actions of development actors and investors.

85. Third, UNCDF will continue to deepen its collaboration with United Nations agencies, international finance institutions and the private sector to maximize development impact and help mobilize additional financing for developing countries. UNCDF is building new and exciting partnerships with United Nations agencies, in particular UNDP, where the combination of UNCDF financial innovations and UNDP sector expertise can tackle last-mile exclusions; with businesses, as innovators, implementing partners and funders; and with existing and new contributors to UNCDF regular and other resources.